

Integral Impact Investing

Where the science of achievement meets the art of fulfillment

by Mariana Bozesan, Ph.D.

This article introduces the concept of Integral Impact Investing as an evolutionary model for sustainable capital management. It argues that the major collective threats faced by humanity today are addressed only partially by the current development strategies and investment schemes. It emphasizes the important role of capital and business in alleviating today's challenges and questions the sustainability of current investment practices in all investment fields such as Venture Capital, Public, and Private Equity. Moreover, it provides an integral investing framework that may fill the current void while potentially reducing the investment risk and increasing the social, environmental, cultural, and happiness impact.

What's the problem?

In his remarkable book 'Common Wealth: Economics for a Crowded Planet', Columbia University professor, director of The Earth Institute, and special UN adviser, Jeff D. Sachs [1], identified six major trends and challenges that humanity is facing in the 21st century.

These trends and challenges are the following:

1. The Age of Convergence: The rapid economic growth especially in the so-called BRIC states (Brazil, Russia, India, China) leads to a much larger world economy of a global world product of $420 trillion by 2050 – or 6.3 times higher than in 2005 – and a population growth of 40 percent. That causes an economic convergence between the developed and developing countries.

2. More People at Higher Incomes: The world's average income per person will rise by 400 percent between 2005 and 2050. According to current predictions and projections by the World Bank, by 2050 the average income per person in developing countries will be at $40,000 and in the United States, for example, it will be at $90,000.

3. The Asian Century: According to Earth Institute studies, Asia's share of global income will grow by 49 percent by 2025 and to 54 percent by 2050, thus taking the lead in the world.

4. The Urban Century: For the first time in human history, more people on earth will live in urban rather than rural areas. To the benefits, there are significant downsides that include the "urbanization of hunger," health hazards, infectious diseases, violence, and insecurity.

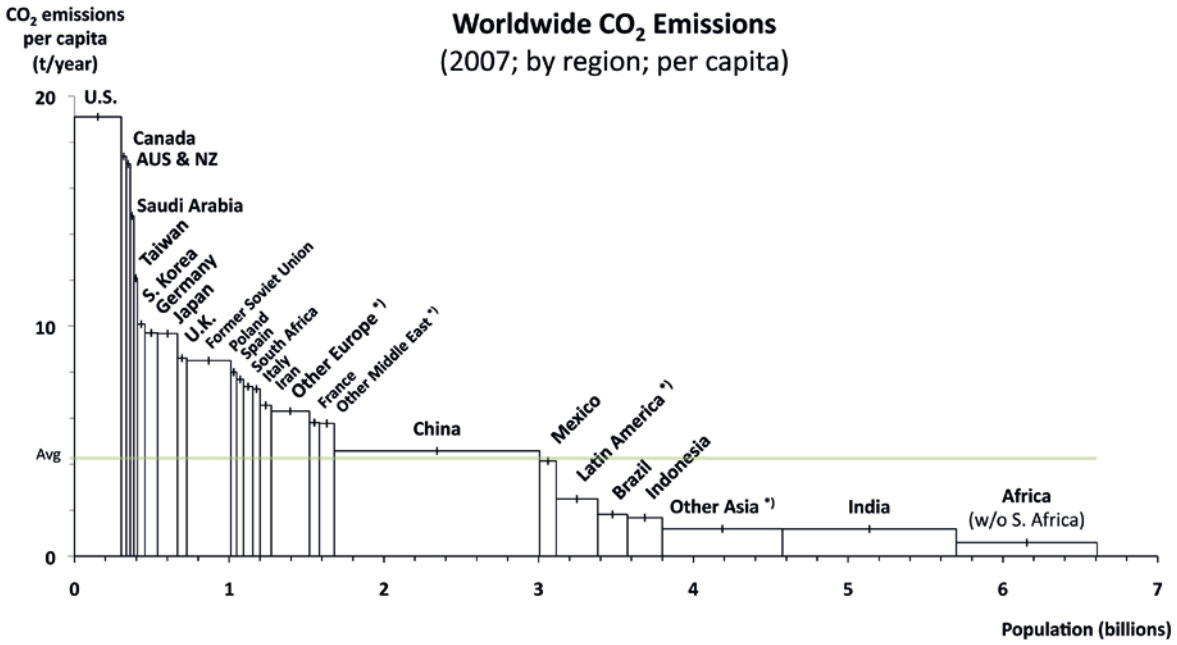


Figure 1: Worldwide carbon dioxide emissions by region an per capita. (Schulz, 2009)

5. The Environmental Challenges caused by the current trends are enormous and include water, earth, and atmospheric pollution with significant increase of carbon dioxide emissions per capita, raising ocean levels, further ecological destruction, reduction of biodiversity, and increased depletion of natural resources. The human impact on the environment is already unsustainable [2]. With the rise of China and India, the current carbon dioxide emissions per capita and year must be reduced significantly otherwise the survival of our planet as we know it is in danger. Thus, the rise of ocean levels, habitat destruction, increase disease transmission and natural hazards, changes in agricultural productivity, water availability, and ocean chemistry may not be the only consequence of climate change (Figure 1) [3].

6. Poorest Billion and The Poverty Trap: Roughly one billion people on earth, however, are not touched by the convergent economic growth mentioned earlier. In fact, they are trapped in a downward spiral of poverty that presents great danger to political stability, is prone to violence and conflict, and contributes to massive local degradation.

What's the proposed solution?

In addressing the global concerns outlined by the Club of Rome in its "World Development Program," [4] the Copenhagen Consensus from 2008 [5] and the Millennium Project (Figure 2), Sachs (2008) summarizes a successful strategy of sustainable development in the following way.

According to the Earth Institute (Sachs, 2008), a strategy of sustainable development that creates global and sustainable prosperity must address:

1. The Development and Adoption of Sustainable Technologies such as clean-energy, drought-resistant seed variety, vaccines for tropical diseases, as well as remote supervision and preservation of biodiversity.

2. The Sustainable Harvesting of Natural Systems such as the correction and reduction of the intensity with which society uses natural capital and resources. For instance, the procurement of lithium that is used in electric car batteries must not destroy the natural beauty of Chile that has one of the world's largest sources of lithium.

3. The Overcoming of the Importance of the Market. Today the market dictates what is being traded. That includes the availability of strawberries and other exotic fruits on Western kitchen tables in the middle of winter or fish on every day of the week. This is unsustainable and must change.

4. The Sustainable Population Growth that includes the voluntary reduction of fertility rates and requires cultural transformation, the empowerment of women, and increased education.

5. The Ending of the Poverty Trap by 2025 by empowering the poor with (a) high-yield agriculture such as improved seed varieties, fertilizers, and irrigation tools; (b) educational technology such as classrooms, bathrooms for girls, and Internet; (c) health care technologies; and (d) modern infrastructure such as electricity, all-weather roads, and safe-drinking water.

However, within the context of the current challenges such as climate change, biodiversity conservation, and eradication of poverty we must look well beyond the social and environmental lens. If we think that these are the only things that challenge humanity today, we're mistaken. The

current problems are not only systemic; they are integral. They are not only related to the exterior/conscious dimensions of reality such as social and environmental, their true source is related to the interior/unconscious dimensions of reality such as cultural, moral, emotional, and spiritual.

What's missing?

What is often left out within the context of current challenges is the emotional devastation and spiritual deprivation along with their impact. That often includes loss of self-esteem, depression, violence, addictions, social isolation, and destroyed relationships. To give one example, according to Jennifer Baker of the Forest Institute of Professional Psychology in Springfield, Missouri, 50 percent of first marriages, 67 percent of second and 74 percent of third marriages in the United States of America end in divorce [6]. The numbers are similar in Europe [7].

Moreover, despite our wealth and abundance, Westerners are ironically among the unhappiest people on Earth with U.S. Americans being on average unhappier than the people of Bhutan, which is one of the poorest countries in the world [8]. Although the overall economic growth over the past decades since World War II has led to greater democratization, more gender equality, increased social tolerance, and thus a higher happiness index worldwide [9], material abundance[10] ceased to be the ultimate goal in developed countries. Further research published in the Journal of Public Economics into 2002 by Blanchflower & Oswald [11] showed that the happiness index in the U.S. and the UK has even decreased despite increased material prosperity.

Moreover, according to a 2005 paper by the American Heart Association [12] – and the numbers are similar in other developed countries – one in three (actually 2.6) adults are currently dying of cardiovascular (i.e., heart) disease. Furthermore, in keeping with a study performed in 2002 by the U.S. Department of Health and Human Services, the Center for Disease Control, and the National Cancer Institute, one in four people is currently dying of cancer [13].

Like Europe [14], 30 percent of U.S. American adults [15] are considered obese according to the scientific definition of obesity and tragically the prevalence in overweight and obesity among children is rising significantly with as many as one in four children that are being affected. The sad part is that while most people in the developed world are literally killing themselves with excess more than one billion people on this planet live on the brink of starvation with one child dying from hunger-related causes every five seconds [16].

Every time we turn on the radio, TV, read a newspaper, magazine, or attend a conference, we keep hearing the call for higher ethics and morals as well as innovation and creativity. Gandhi and Einstein seem to be the most quoted people these days. Through their calls, "We must be the change we want to see in the world" (Gandhi) or "The significant problems we face cannot be solved by the level of thinking that created them" (Einstein), we are being encouraged to change our behaviors and come up with better solutions to the current problems. Yet, the calls for change are loaded with fear and desperation and those of us who have ever tried to change unwanted habits, know how difficult that is. Behavioral change occurs from within and fear is a good slave that gets us quickly out of trouble but not a good master.

Despite all of it, humanity has proven numerous times in the past that it can collectively address some of the most challenging tasks such as ratifying



Figure 2: The promise of the Millennium Goals (www.millennium-project.org)

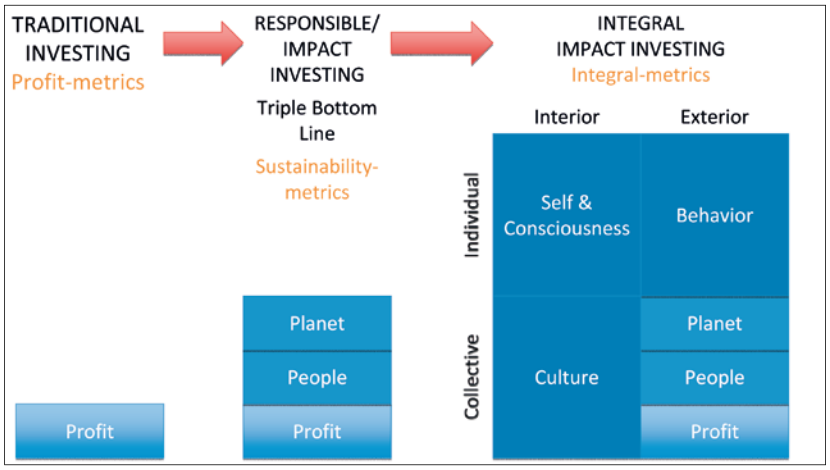


Figure 3: Evolution of investing

the ozone layer protection act [17], the eradication of smallpox and polio [18], as well as fighting AIDS, tuberculosis, and malaria, some of which are still under way. The keys to success include not only a clear objective, but also, an implementation strategy, an effective technology, financing, and most of all trust, compassion, and the ability to "celebrate what's right with the world" as the famous National Geographic photographer, Dewitt Jones [19], would say it.

Why investors put their money where their heart is?

1985 is generally seen as the official birth year of Responsible Investing (RI) also known as social responsible investing, program related investing, or impact investing. That year, the Canadian Vancity Credit Union introduced the first ethical mutual fund that allowed investors to have a social or environmental impact by investing their money in companies that cared about addressing some of the challenges outlined above. By the end of 2007, the global assets under management (AUM) invested in the Responsible Investing market had reached USD 5 trillion [20] and represented already 7 percent of the total global AUM. While the total AUM growth remained globally at 10 percent per annum, the Responsible Investing AUM is growing since 2003 on average by 22 percent per annum. According to a study performed in 2009 by Robeco and Booz & Company, the Responsible Investing market is expected to become mainstream in 2015 with AUM of 15 to 20 percent of total global AUM (USD 26.5 trillion) and total revenue of USD 53 Billion. What determines investors to put more money into these markets in a way that changes the entire investing paradigm from niche to mainstream?

Increased social and environmental awareness along with growing prices for energy and natural resources, legislation changes regarding reduction of CO_2 emissions, and the availability of new technologies such as clean technology play the key roles. However, various studies [21] including a recent phenomenological research performed with top business leaders and investors, revealed a significant shift in consciousness at the leadership level in business and investing (Figure 3). These are called integral impact investors because they make their financial bottom line more successful by adding interior metrics such as culture, ethics, and emotional property to the exterior ones such as financial, social, and environmental. They are driven by a happiness index.

Traditional investors are profit driven and have the challenge to earn consistently superior financial returns on their investments. During the dot.com boom of the 1990ies, return on investments between 10 and even 50 percent have often been the case especially within the high-risk venture capital world. Yet, the traditional, profit-only, and mostly rational driven decision criteria impeded even the most astute investors to identify and invest in newcomers such as eBay, Federal Express, or even Google. For instance, all these three companies are on the list of missed opportunities of Bessemer Venture Partners [22], one of the oldest VC companies in the United States. On their website one can read how David Cowan, one of their partners, missed the opportunity to invest in Google when his "college friend rented her garage to Sergey and Larry for their first year. In 1999 and 2000, she tried to introduce Cowan to "these two really smart Stanford students writing a search engine."[He thought] Students? A new search engine? In the most important moment ever for Bessemer's anti-portfolio, Cowan asked her, "How can I get out of this house without going anywhere near your garage?" This example shows that the need for a new investment lens with new success metrics became obvious.

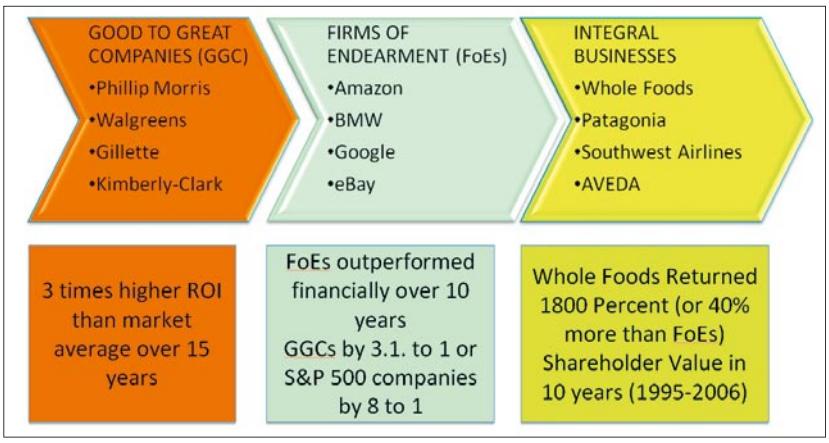


Figure 4: Integral Businesses make more money than traditional ones.

As we have seen, since 1985, a new trend of responsible investing was born through increased social and environmental awareness of investors along with new movements including Corporate Social Responsibility and various new criteria of measuring success. In addition to bottom line/ profit metrics, impact investors began putting their money into investment portfolio companies that used new metrics such as the Social Performance Indicators, Environmental Performance Index (EPI) [23], the ISO 14001 Environmental Management Systems, or even Triple Bottom Line accounting, which adds People and Planet to the Profit metrics.

We are still at the beginning of responsible investing and even the introduction of the Dow Jones Sustainability Index in 1999 has not stopped its critics from claiming that the introduction of social, environmental, and governance metrics is reducing the profit bottom line. In fact, the opposite is true. Integral Impact Investors (Figure 3) and Integral Businesses (Figure 4) are showing how the financial bottom line can be significantly increased by adding cultural and developmental metrics to the social, environmental, and financial ones.

In a recent study [24] published in the book 'Firms of Endearment: How World-class Companies Profit from Passion and Purpose', one can clearly see what the key to success of these companies is: namely, their biggest competitive advantage, which can be measured at the financial bottom line, is their corporate culture. Firms of Endearment (FoEs), as these companies are being called, outperformed financially S&P 500 companies by 8 to 1 over a period of 10 years. Under the premise that every exterior is driven by an interior, these companies such as Timberland, Southwest Airlines, or Whole Foods are driven by a cultural shift toward subjectivity, trust, interdependency, integrity, transparency, caring, passion and fun in addition to profit.

As a matter of fact, Whole Foods, whose founder John Mackey considers it to be an Integral company, was even more successful than all other FoEs. Over a period of 10 years, Whole Foods returned 1800 percent to their investors and outperformed significantly all of its competitors including Wal-Mart, Albertsons, and Safeway.

Summary

Having been an integral impact investor over the past fifteen years, I can safely conclude that as investors expand their investment metrics to include cultural, social, and environmental criteria in addition to the financial ones, they will be able to increase not only their return on financial investment, but also their deal flow, its quality, and their overall impact in a significant way. As investors expand their selection lens to become integral impact investors, they will be able to identify and invest much sooner in integral companies such as Whole Foods, Aveda, and Patagonia. These companies are not only led by what I call consciousness leaders, but are driven by integral teams with a high level of integrity, passion and love for people and the planet. Integral companies are driven by cultures of inter-dependency that connect and respectfully honor all stakeholders equally from investors, to partners and suppliers, to customers, to employees, to their communities [25].
Because of that, integral companies are able to maximize their long-term shareholder value by simultaneously optimizing the value of all stakeholders. Moreover, they create, support, and integrate new industries such as green buildings, organic and sustainable agriculture, sustainable fisheries, or local manufacturers. Last but not least, integral companies care about their communities and the environments and are on a philanthropic mission. Whole Foods for example, donates five percent of their after-tax profits to nonprofit organizations. Their financial success shows that caring business practices and conscious capitalism pays off in the long term.

Despite enormous challenges, humanity can look into a bright and exciting future if we are willing to grow and reinvent ourselves anew every single day. It is a future in which new paradigms are emerging while we collectively move to higher levels of consciousness. There could be too much at stake if we do not. Along with the shifting worldview in all areas of life, we must all awaken the leader within whether we act as an investor, an entrepreneur, or a fisher. We all have the responsibility to define and implement a new worldview that is based on the essence of all existence, the interior as well as exterior reality. The time has come to move to higher levels of human existence at which we must let our hearts speak much louder than before. We must unify our brains with our hearts. This is where the science of achievement meets the art of fulfilment. At this intersection we realize that the true light shines not on us but from within us.

Profile



An impact investor, venture philanthropist, and serial entrepreneur, Dr. Bozesan, is an international authority on Integral Impact Investing. Together with a worldwide team of impact investors, Dr. Bozesan is significantly reducing the investment risk and increasing the social, cultural, environmental, as well as the happiness impact through her evolutionary Integral Impact Investment Model based on Ken Wilber's Integral Framework. Educated at Stanford University and KIT (Karlsruhe Institute of Technology) in Germany, Dr. Bozesan holds an M.S. degree (Dipl.-Inform.) in Artificial Intelligence and Computer Science from KIT. She received her Ph.D. in Psychology from the Institute for Transpersonal Psychology in Palo Alto, California.

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